

NARRATIVE FOR BUDGET 2016 SUBMISSION JULY 02, 2015

Executive Summary

Over the past two years, FY2013 and FY2014, North Country Hospital significantly reduced its cost structure to correct declining margins from FY2011 through FY2013. FY2014 North Country met its budgeted operating margin and is on target to meet the budgeted operating margin in FY2015. North Country has continued to focus on cost containment in FY2015 and has also experienced a slight increase in utilization during FY2015.

The net patient revenue for North Country Hospital has increased 4.86% (\$3,425,743) from Budget 2015 to Budget 2016, of which 2.03% (\$1,435,915) is from the acquisition of a pediatric practice.

The overall rate increase for FY2016 is 4.81% with a budgeted Operating Margin of 1.5%.

The FY2016 has an expense increase of 3.12% or \$2,423,538, of that the acquisition of a pediatric practice accounts for \$1,471,578. The FTE budget has increased by 4.46% or 20.66 FTEs. 11.33 FTEs are attributed to the acquisition of a pediatric practice, Newport Pediatrics. The remaining increase of FTE's is 2.01% or 9.33 FTE's. This is following a two year decrease in FTEs of 46.

Health Reform Investments

There is an investment for the cost of participation in the ACO of \$337,365 which is a n increase of \$99,750 from FY2015. There are capital investments which include investments in Information Systems that are geared towards the ACO and health care reform (Population Health Module) \$41,666. North Country Hospital will have the FY2015 investment in DB Motion complete in September 2015. The FY2015 capital building improvements which have consolidated two Primary Care clinics five miles apart into one Primary Care clinic in Barton, Vermont was completed in April 2015. The return on investment has not been established yet.

Overall Budget Net Patient Budget to Budget Increase

The net patient revenue for North Country Hospital has increased 4.86% (\$3,425,743) from Budget 2015 to Budget 2016. The acquisition of Newport Pediatrics makes up 2.03% (\$1,435,915) of the 4.86% increase. The net patient revenue increase is a result of slightly higher utilization in outpatient services and physician practices, lower inpatient surgical utilization, a reduction in DSH revenue and an overall 4.81% fee increase. Utilization estimates were based on current utilization and trends over the last several years.

North Country Hospital is requesting an overall 4.81% increase to gross charges. The increase is inclusive of \$2,320,411 in gross revenue from the acquisition of Newport Pediatrics. This increase is needed to meet operating expenses and allow us to have a net operating profit margin of 1.50% to reinvest into the facility and operations.

In regards to inflation estimates, salaries were increased 3.00%, benefits were increased 2.00%, insurances 2.00%, and all other applicable non salary by 2.00%.

Utilization, inflation and revenue assumptions by payer:

Utilization:

Utilization is analyzed in total, utilization projections are done without the payer being part of the initial analysis. Once we have projected a volume for utilization that volume is then spread over the payers based on the current payer mix.

Inflation:

Rate increase is applied evenly across all gross charges. Inflation was not applied to physician practices. North Country Hospital laboratory fees received a 2.6% decrease.

Revenue assumptions by payer:

Medicaid – Rate increase is applied to all charges. Inpatient Medicaid revenue is reimbursed by DRG and outpatient is reimbursed by APC or fee schedule. Therefore, an increase in gross charges does not result in any additional net revenue. The net percentage is based on the most recent percentages we have calculated at the time budget is prepared. In regards to payer mix percentage from budget 15 to budget 16, Medicaid's percentage of payer mix has increased 4.08% in total. The reimbursement percent for Medicaid has decreased by 1.66%.

Medicare – Rate increase is applied to all charges. Inpatient Medicare is reimbursed by a per diem rate under our Critical Access Hospital reimbursement structure. Therefore, an increase in gross charges does not result in any additional net revenue. Outpatient Medicare is reimbursed by percent of charge so net Medicare revenue does increase when the gross charge increases. In regards to the assumptions we use for the net percentages, we consult our cost report preparers to provide us with an estimate as to what effect the most recent filed cost report would have on our current reimbursement rates for the budget year. Payer mix from budget 15 to budget 16 for Medicare has decreased .70% in total. The percent reimbursement for Medicare has increased 1.18%.

Commercial/Self pay/other – Rate increase is applied to all charges. Inpatient and outpatient charges for these payers do have an increase in net revenue when the gross charge increases. Commercial, self pay, and other net percentages are based on the most current reimbursement percentages we have calculated at the time the budget is prepared.

Commercial payer mix has decreased in total by 2.40% and self pay and other payers have decreased by 1.06%. Commercial reimbursement has decreased 1.02% which is a combination of lower reimbursement by payers and rate increase.

There is no revenue included in the 2016 budget for meaningful use funds.

Rate Request

Please refer to requested worksheet.

Capital Budget Investments

The total requested Capital Budget is \$3,717,544, of which 29.93% is allocated to Information Technology improvements. \$250,000 of the Information Technology budget is carried forward from the prior year for completion of DB Motion Population Health Management.

Technical Concerns

North Country Hospital does not have any technical concerns with the Adaptive planning site and budget submission process at this time.

Community Health Needs Assessment

The Community Health Needs Assessment has been posted to our website. A new assessment is being completed in FY2015.

Outpatient Visits

For the Budget, Outpatient registrations/visits are ER, SDS, Observation, OPD (outpatient testing), infusion series, Lab series, Rehab series (only when the series is discharged) discharges for various departments. Budget is prepared by using an actual rate of test/registrations over a period of months and applying that rate to budgeted registrations.